Chapter 19: RISK MANAGEMENT REGULATIONS

19.1. METHODOLOGIES:

(a) The Closing Price of a Security eligible for trading under respective Market is determined as per following methodology:

(i) If the cumulative volume in a Security is at least 500 shares or Rs. 25,000/ -, whichever comes earlier (here in after referred to as the "threshold") then the Closing Price of that Security shall be determined as Volume Weighted Average (VWA) price of trades of last 30 minutes before closing of the market.

(ii) If the cumulative volume in a Security during last 30 minutes before closing is less than the threshold, then the Closing Price of that security shall be determined as VWA of the most recent executed trades during the day which constitute the threshold.

(iii) If no closing price is determined as per clause (i) and (ii) above, then the Closing Price of that security shall be the previous day's Closing Price.

(iv) Cross Trades at Securities Broker's level, and trades which are executed under the same UIN, if any, shall not be eligible for the determination of Closing Price of the respective Security.

(b) In case no trade takes place during the whole trading day in the Deliverable Futures Contract Market or Single Stock Cash-Settled Futures Contract Market in a particular Security, the Closing Price of that Security for respective futures market will be updated on the basis of Theoretical Price.

(c) The Theoretical Price for a Security tradable under Deliverable Futures Contract and/or Single Stock Cash-Settled Futures Contracts Markets, if there is no trading in such Security in the respective market during whole trading day, is determined as per following methodology:

(i) The Closing Price of underlying Security in the Ready Delivery Contract market x {1+(One Month KIBOR+4%) / 365 X DTM};
(ii) In case of ex-entitlement Contracts, the Theoretical Price will be adjusted based on ex-price adjustment formulas determined by the Exchange.

Whereas DTM stands for Date to Maturity which will be equivalent to days difference in the trading date of the Ready Delivery Contract market and last trading date of Deliverable Futures Contract or Single Stock Cash-Settled Futures Contract on any trading date, on which such DTM is being determined.

(d) The Theoretical Price for a Security tradable under Stock Index Futures Contract Market, if there is no trading in such Security in such market during whole trading day, is determined as per following methodology:

=Underlying index X [1 + r(x/365)]-d
Where r= rate of interest, x=number of days to maturity and d=dividends.

(e) The Closing Price of a Debt Security eligible for trading under respective Market shall be determined as per following methodology:

(i) If the cumulative volume in a security is at least 500 units or Rs. Y (defined below), whichever comes earlier (hereinafter referred to as the "threshold"), then the Closing Price of that security shall be determined as Volume Weighted Average (VWA) price of trades of last 30 minutes before close of market.
(ii) If the cumulative volume in a security during last 30 minutes before close of market is less than the threshold, then the Closing Price of that security shall be determined as VWA of the most recent executed trades during the day which constitute the threshold.
(iii) If cumulative volume is less than the threshold or there is no volume in the security during the whole trading day, then the Closing Price of the security shall be the previous day's Closing Price.
(iv) Cross Trades, at Securities Broker's level and trades which are executed under the same UIN, if any, shall not be eligible for the determination of Closing Price of the respective security.

Explanation: The trades for the purpose of this clause means all trades executed in an auction trading, negotiated deals, RFQ trading and continuous trading.

Threshold (Y) is set as follows:

Issue Size From	Issue Size To	Value of Y (PKR)
0	1,000,000,000	15 million
1,000,000,001	999,999,999,999	25 million

The closing price of a Debt Security so determined may not be a fair value or market value of such Debt Security for the purpose of custody valuation.

(f) The Closing Price of a Government Debt Security shall be the last trade price. In case no trade takes place in a security during the whole trading day, there will be no closing price of a security.

19.2. BASE MINIMUM CAPITAL:

Every Securities Broker desiring to trade in any Market shall be required to maintain a Base Minimum Capital of the amount and in the form as calculated/prescribed in Schedule-1 annexed to this Chapter.

19.3. SCRIP-BASED CIRCUIT BREAKER:

(a) The Exchange shall apply Security-wise circuit breaker for each Market separately (except Stock Index Futures Market and Index Option Market) in case of price fluctuation of 7.5% or Re. 1/ -, whichever is higher from the security's Closing Price of the previous day which shall increase by 0.5% after every 15th day or such other time as may be notified by the Exchange till the time the circuit breaker reaches to the level of 10% or Re.1/ -, whichever is higher.

Provided that for ETF, the circuit breaker shall be applicable as follows:

(i) The prevailing percentage based circuit breaker shall be applicable on the Net Asset Value of ETF or higher circuit breaker as notified by the Exchange from time to time under this clause.
(ii) Where ETF underlying constituents comprise of stocks which are subject to both values of circuit breakers i.e. Re. 1/- and prevailing percentage based circuit breaker, the circuit breaker of such ETF shall be applied as the weighted average circuit breaker applicable on underlying constituents for the day.
(iii) In case ETF is eligible for trading in Futures Market, the prevailing percentage based circuit breaker shall be applicable on the NAV based theoretical price as determined by the Exchange.

(b) Circuit breakers on the first trading day of a Security shall be applicable as follows:

(i) During the first trading day of a Right Allotment Letter of any Security, the prevailing circuit breaker shall be applicable at the notional price determined based on previous day's Closing Price of the underlying Security minus payable amount against such Right Shares. Provided that when the amount payable against such Right Shares is equal to or greater than the previous day's Closing Price of the underlying Security, the notional price will be the tick size of underlying Security.
(ii) Where a Security is placed on Ready Delivery Contract Market without going through Book Building Process, then the circuit breaker of Rs.5 or 50% whichever is higher, shall be applicable on the offer price during the first trading day in Ready Delivery Contract Market.
(iii) During the first trading day, on the Ready Delivery Contract Market, of a Security formally listed at the Exchange, the prevailing circuit breaker shall be applicable on the Strike Price of such Security determined through Book Building Process.
(iv) During the first trading day of ETF on the Ready Delivery Contract Market, the circuit breaker on ETF shall apply on the ETF NAV of the previous day in the same manner as specified for ETF in proviso 19.3. (a).

(c) In case of Stock Index Futures Market, the circuit breakers shall be applicable in case of movement of 7.5%, above or below the previous Trading Day's closing price. In case of first trading day of a SIF Contract, circuit breaker shall apply on movement of 7.5% above or below the opening price of the Trading Day, as determined during the pre-open session. No circuit breaker will be applicable on the last day of trading in a SIF Contract.

(d) Trading will be allowed up to the upper and lower limits as set by the circuit breakers.

(e) No trade in the respective security will be allowed beyond the above price fluctuation.

Note: The calculated price for circuit breakers shall be rounded to the nearest tick.

19.4. INDEX-BASED MARKET HALTS:

(i) The Exchange shall apply index-based market halt in case KSE-30 index moves 5% either way from its last day closing index value.

(ii) In case, KSE-30 Index continues to trade 5%, above or below its last day closing index value for consecutive 5 minutes, the trading in all securities shall be halted for such duration as specified by the Exchange. Upon imposition of a market halt, the following measures shall be taken:

i. All equity and equity based derivative markets shall be suspended.

ii. The market shall have a five (05) minutes pre-open before its re-opening.

iii. NCCPL shall collect margins including Mark-to-Market losses from its Clearing Members as per its Regulations. Only those BCMs shall be allowed to trade after resumption of trading for that day which have deposited the required margins with NCCPL.

Provided that the Index-based market halt shall not be applicable in case KSE-30 index moves beyond 5% during such duration prior to close of the market as specified by the Exchange.

19.5. OBLIGATION OF SECURITIES BROKERS TO COLLECT MARGINS FROM THEIR CLIENTS:

It shall be obligatory upon the Securities Broker trading/taking exposure in any Market under these Regulations to take all margins and MtM losses from their respective clients in accordance with total Margin Requirements as prescribed by the NCCPL. Such prescribed margin shall be the minimum margins that must be taken by the Securities Broker from their respective clients while trading/taking exposure on behalf of such client. The Exchange shall ensure compliance of this

requirement through appropriate procedures including auditing and inspection of records, provided that the Securities Brokers may not, if so desire, collect applicable margins and MtM Losses from their institutional clients who directly settle their trades through NCCPL as its Non-Broker Clearing Members.

Provided further that in case where margins are not collected from any institutional client, the Securities Broker shall remain responsible for payment of all applicable margins to NCCPL in accordance with NCCPL Regulations.

The collection of any type of margin by a Securities Broker from its client/client(s) shall be the sole responsibility of such Securities Broker; nevertheless, any failure of the client to pay such margin shall not affect the obligation of the Securities Broker to pay such margin to the NCCPL.

Provided that:

(i) in case of a Trading Only Securities Broker and Online Only Securities Broker, which maintain custody of assets of its customers including its sponsors, directors and their Close Relatives with PCM or Trading and Clearing Securities Broker, it shall be obligatory upon the securities broker to coordinate with the customers for fulfilling the margin calls as issued by the PCM or the Trading and Clearing Securities Broker. The customer shall deposit the margins with the PCM or the Trading and Clearing Securities Broker and no margin shall be deposited with such Trading Only Securities Broker or Online Only Securities Broker

(ii) The relevant PCM or Trading and Clearing Securities Broker shall remain responsible for payment of all applicable margins to NCCPL in accordance with NCCPL Regulations.

Explanation: Close Relatives shall have the same meaning as defined in the Securities Broker (Licensing and Operations) Regulations, 2016.

19.6. EVASION OF REQUIREMENTS PROHIBITED:

A Securities Broker shall not directly or indirectly enter into any arrangement or adopt any procedure for the purpose of evading or assisting in the evasion of the requirements prescribed under these Regulations and NCCPL Regulations.

Schedule-I

[SEE REGULATION 19.2]

BASE MINIMUM CAPITAL (BMC) TO BE MAINTAINED BY A SECURITIES BROKER

Required value of Base Minimum Capital:

(1) Every 'Online Only Securities Broker' shall maintain an amount of PKR 1 Million as BMC with the Exchange in any forms of collaterals mentioned in Table B below.

(2) Every 'Trading Only Securities Broker' shall maintain an amount of PKR 5 million as BMC with the Exchange in any of the forms of collaterals mentioned in **Table B** below.

(3) Every 'Trading Only Securities Broker' keeping custody for its proprietary and directors, sponsors, and their relatives, 'Trading and Self-Clearing Broker' and 'Trading and Clearing Broker' shall maintain BMC as per the slabs mentioned in **Table A** below with the Exchange which shall be determined based on the Assets Under Custody (AUC) which is same as the Custody Position held under its Participant Account with CDC:

Table A

Clients' AUC (in PKR)		Required Amount of BMC (in PKR)
From	To	
0	25,000,000	8,000,000
25,000,001	50,000,000	8,000,000 + 10% of excess over 25,000,001
50,000,001	100,000,000	10,500,000 + 5% of excess over 50,000,001
100,000,001	200,000,000	13,000,000 + 3% of excess over 100,000,001
200,000,001	400,000,000	16,000,000 + 1.5% of excess over 200,000,001
400,000,001	800,000,000	19,000,000 + 0.75% of excess over 400,000,001
800,000,001	1,600,000,000	22,000,000 + 0.375% of excess over 800,000,001
1,600,000,001	3,200,000,000	25,000,000 + 0.1875 of excess over 1,600,000,001
3,200,000,001	6,400,000,000	28,000,000 + 0.0937% of excess over 3,200,000,001
6,400,000,001	10,000,000,000	31,000,000 + 0.0833% of excess over 6,400,000,001
10,000,000,001	25,000,000,000	34,000,000 + 0.02% of excess over 10,000,000,001
Over 25,000,000,000		37,000,000 + 0.014% of excess over 25,000,000,001

Provided that the above AUC slabs shall not exceed the Maximum Custody Limits allowed to a Securities Broker under the Securities Brokers (Licensing and Operations) Regulations, 2016 in terms of the Capital Adequacy Level of such Securities Broker as provided by the CDC in its Regulations. The terms, 'Custody Position', 'Maximum Custody Limit' and 'Capital Adequacy Level' shall have the same meanings as ascribed thereto under the CDC Regulations.

Forms of BMC:

The Securities Broker may maintain the BMC in any one or more of the following forms of collaterals mentioned in Table B below in order to meet the required value of BMC:

Table B

S.#	Form
1	Cash.
2	Bank Guarantee.
3	Margin Eligible Securities, which include Treasury Bills (T-Bills) and Pakistan Investment Bonds (PIBs), after applying Haircut as prescribed by NCCPL from time to time.
4	Electronic units of CDC eligible Open-End Funds categorized as Money Market Schemes to be valued as per the methodology and after applying haircut specified by the NCCPL from time to time.
5	Shares of the Exchange pledged in favour of the Exchange.
6	Shares of the Exchange and/ or Excess Margin Eligible Securities available in the respective Sub-Account(s) of the relevant Securities Broker's: (i) Directors; (ii) Chief Executive Officer; or (iii) any other individual who holds at least 10% shares of such Securities Broker. **NOTE:** The individuals mentioned in 6(i), (ii) and (iii) above shall be referred to as "Pledgor" in this SCHEDULE and FORM-I attached thereto.
7	Shares of surviving entities of Lahore Stock Exchange (LSE) and/or Islamabad Stock Exchange (ISE) pursuant to the Scheme of Integration approved by the Commission, maximum up to 100% of shares allotted to an initial shareholder of respective entity.

Notes:

1. In case the BMC is maintained in the form 7, or in the form of equivalent value of any one or more of other forms of collateral as mentioned above, by a TRE Certificate Holder inducted by the Exchange pursuant to the Scheme of Integration approved by the Commission and the combined value of these forms of collateral is insufficient to meet the required value of BMC, respective TRE Certificate Holder shall provide/arrange additional Cash and /or Bank Guarantee or Margin Eligible Securities including bank guarantee from the trust funds as provided in the Stock Exchanges (Corporatization, Demutualization and Integration) Regulations, 2012.

2. For the purpose of form 6 mentioned above, the Pledgor shall authorize the Securities Broker in writing as specified in FORM-I, specifying the number of shares and time duration, if any, for utilizing shares of the Exchange and excess Margin Eligible Securities available in their respective Sub-Account(s) for meeting the BMC requirement of such Securities Broker.

3. The Exchange shall pass on profit to Securities Broker on the cash amount deposited with the Exchange against BMC at the rate paid by the respective bank(s) after retaining service charge as notified by the Exchange from time to time.

Review and Updation of BMC

1. The Exchange shall determine the required Value of BMC for each Securities Broker on the first working day of every month on the basis of Client's AUC of such Securities Broker as of the last working day of the preceding month.

2. The Securities Broker shall be required to fulfill any shortfall in the BMC within next five (5) working days of the issue of notice by the Exchange.

Valuation of collateral forming part of BMC (Interim Review)

1. Mark-to-Market value of the Margin Eligible Securities and shares of the Exchange shall be conducted on daily basis.

   Provided that the shares of Exchange shall be valued at break-up or market price, whichever is higher, subject to application of a fixed haircut of 30%.

2. Value of the shares of the surviving entities of LSE and ISE shall be lower of the last transaction price or break-up value determined semi-annually based on break-up value per share as per half-yearly reviewed and annual audited financial statements of the surviving entities after applying 30% haircut on such break-up value. However, where the last transaction price is older than six months, then the break-up value as mentioned above shall be considered subject to higher haircut of 50%.

The Exchange shall also disseminate the information pertaining to point 2 above to the market participants.

Provided that in case value of collateral deposited by a Securities Broker to meet its BMC requirement falls below its required value at trading day end, the Exchange shall require such Securities Broker to deposit the shortfall in any of the forms as mentioned above within one trading day, failing which the Exchange shall restrict/suspend trading rights of such Securities Broker till the time the Securities Broker fulfills its BMC requirement.

Utilization of BMC in the event of default by a Broker or cancellation/forfeiture of its TRE Certificate:

In case of declaration of a Securities Broker as defaulter or cancellation/forfeiture of its TRE Certificate under the applicable regulations of the Exchange, the Exchange shall utilize the proceeds of collaterals deposited to meet BMC requirement in accordance with the applicable regulations of the Exchange and in terms of the letter of pledge/undertaking/lien mark, where applicable.

FORM-I

[On non-judicial stamp paper as required under CDC Standardized Account Opening Form for individuals]
[For individual Sub-Account Holder]

SPECIFIC AUTHORIZATION PURSUANT TO CLAUSE (G) OF THE STANDARDIZED SUB-ACCOUNT OPENING FORM FOR PLEDGING OF BOOK-ENTRY SECURITIES

This Authorization is executed at ____, this ___ day of ____, ____and shall be valid up to _____.

Pursuant to Clause (G) of the Standardized Sub-Account Opening Form, I/we the undersigned, maintaining Sub-Account No. [insert Sub-Account No.] under CDS Participant Account of [insert name of the Participant] having ID No. [insert Participant ID] hereby give my/our specific authority to the Participant under Section 12 of the Central Depositories Act, 1997 to pledge my/our Securities which are declared as (i) Margin Eligible Securities by the NCCPL and as notified by the NCCPL from time to time under its Regulations and (ii) shares of Pakistan Stock Exchange limited (PSX), represented by Book-entry Securities entered in my/our aforesaid Sub-Account **as detailed below** only in favour of PSX FOR THE SPECIFIC PURPOSE OF MEETING THE MINIMUM VALUE OF BASE MINIMUM CAPITAL (BMC) BY THE ABOVE SAID PARTICIPANT IN ACCORDANCE WITH SCHEDULE I TO CHAPTER 19 OF PSX REGULATIONS.

The PSX shall have the full authority to liquidate these Book-entry Securities kept as acceptable form of collateral against the BMC requirement in any manner at its sole discretion in the event of declaration of the Broker as defaulter or cancellation/forfeiture of its TRE Certificate in accordance with the PSX Regulations:

Detail of Book Entry Securities			
Sr. No.	**Name of Securities**	**Volume**	**Time Duration, if any, as specified by the Pledgor**

IN WITNESS WHEREOF I/we have executed this Authorization on the date written above in the presence of witnesses named below.

EXECUTED BY THE SUB-ACCOUNT HOLDER(S):

Name & Signature of Sub-Account Holder: _____(CNIC Number)
Name & Signature of Joint Account Holder 1: _____(CNIC Number)
Name & Signature of Joint Account Holder 2: _____(CNIC Number)
Name & Signature of Joint Account Holder 3: _____(CNIC Number)

IN THE PRESENCE OF:

WITNESSES:

1 _____

Name _____

Address _____

CNIC _____

2 _____

Name _____

Address _____

CNIC _____

Note:

1. Use of this Authorization in piecemeal is strictly prohibited.
2. This Authorization shall be signed as per the operating instruction of the Sub-Account in Participant's records.
3. This Authorization shall be duly verified by the Company Secretary of the Broker and Designated Officer of PSX.